

September 2025

“Discipline is doing what needs to be done, even when you don’t feel like doing it.” - Unknown

Market Insights

Australian Market

Australian equities were mixed in September, as investors balanced optimism over U.S. rate cuts with domestic inflation pressures and cautious RBA commentary.

The ASX 200 Total Return Index fell -0.8%, with energy (-9.8%) the weakest sector, impacted by the collapse of the proposed Santos takeover. Materials (+9.2%) led the market, supported by a broad rally in gold miners as the metal neared US\$4,000/oz.

The domestic economy continues to show resilience.

Australia’s August CPI rose 3.0% YoY, the highest reading in a year, as electricity rebates rolled off and household service costs increased. Markets now price only one RBA rate cut by March 2026, down from two at the start of September. Unemployment held steady at ~4.2%, with solid full-time job growth but a decline in vacancies, suggesting the labour market is starting to cool.

Performance across market segments diverged sharply. Small and mid-cap equities again outperformed: the ASX Small Ordinaries Accumulation Index gained +3.4%, and the ASX300 ex-20 rose +0.85%, while large caps were flat to down. In our opinion, this rotation reflects growing investor interest in companies with earnings leverage to falling global rates, particularly gold, copper, and early-cycle industrials.

Defensives such as Consumer Staples and Healthcare lagged, while higher-growth sectors like Technology, Biotech, and Defence posted strong gains. Meanwhile, the “defence spending thematic” gained further momentum, pushing stocks such as DroneShield, Electro Optic Systems, and Codan spiking higher.

Global Markets

Global equities extended their upward trend in September, with the MSCI ACWI (AUD) gaining 2.33%, with local market gains partly offset by AUD strength. Emerging markets led the rally, driven by China’s partial recovery and semiconductor strength across Asia.

In the U.S., the S&P 500 advanced around +3.6%, propelled by resilient earnings and shifting Fed expectations which cut interest rates by 25 bps to 4.00%-4.25%, its first reduction of 2025. Core inflation was roughly stable, and the labour market is showing signs of loosening.

European markets posted modest gains amid a backdrop of easing inflation and soft growth. The ECB held policy steady, emphasizing a wait-and-see stance given historically aggressive cuts earlier in the year.

Asia delivered standout returns: Japan extended gains, with the Nikkei hitting multi-decade highs, supported by corporate profit strength and a benign BoJ posture. China’s equity rebound was powered by renewed stimulus expectations, whilst trade tensions continue to be watched.

Commodities diverged: gold continues to surge (up another ~+10%), driven by real yield compression and liquidity optimism. Oil was volatile and weakened over the month. Copper rebounded up month-over-month, reflecting hopes of renewed industrial demand.

Geopolitically, markets watched the U.S. budget impasse (leading to a government shutdown) with caution and the court victory shielding Fed Governor Lisa Cook from removal, boosting perceptions of some stability. Meanwhile, the U.S. and EU have progressed a framework to resolve tariff friction, and the U.S. and Japan revised auto import agreements, reducing trade overhangs.

Outlook

As always, we premise our views with: We do not attempt to forecast markets, as we do not believe this possible. However, we do apply stringent risk and macroeconomic overlays to our investments. We train ourselves to think long-term and not be distracted by short-term thinking or market fluctuations.

We believe that investors should focus on high-quality companies with resilient business models, strong balance sheets, and a proven ability to navigate complex environments.

Australia

Equity markets continue to test new highs, buoyed by expectations of easier global monetary policy. However, domestically we see valuation risks rising, particularly in consumer discretionary and financial sectors, where earnings multiples have expanded sharply.

The RBA's tone has turned slightly more hawkish following the August inflation print. Market expectations now point to a slower pace of domestic easing compared to peers, suggesting that interest rate differentials may strengthen the AUD into early 2026.

From an equity strategy perspective, we remain constructive on select small and mid-cap exposures leveraged to commodity and infrastructure cycles, while maintaining discipline around valuation. Large-cap opportunities are concentrated in sectors offering relative valuation support and strong balance sheets.

Gold remains a key theme. With bullion approaching US\$4,000/oz and central bank demand persisting, the outlook for gold equities remains compelling. Conversely, oil and energy producers may remain under pressure amid high inventories and declining demand forecasts.

In this environment, portfolio selectivity and capital discipline are paramount. Our focus remains on high-quality businesses with durable earnings and prudent capital allocation, capable of compounding through multiple market cycles.

Global

The market enters Q4 of the calendar year with cautious optimism.

The Fed's pivot to rate cuts provides a favourable backdrop for equities. However, in our opinion, many valuations are high and are becoming vulnerable. We expect one or two additional 25 bps cuts from the Fed before year-end, contingent on softening inflation and continued labour market cooling.

In Europe, with inflation near target and growth fragile, the ECB is likely to stand still watching the lagged effects of earlier cuts rather than moving aggressively.

Japan continues to deliver corporate momentum and earnings strength remain strong tailwinds.

China is a key wildcard. Modest stimulus measures and credit support are expected in Q4 to steady growth and stabilise real estate (although we have been discussing this for several months already). If Beijing accelerates actions, it could reignite demand for commodities and industrial sectors globally.

Sector-wise, we see a growing rationale for market rotation. Growth names, particularly in technology and AI infrastructure remain in focus however valuations are stretched, whereas cyclical sectors (industrials, materials, financials) may gain favour if macro momentum.

In fixed income, falling rates make duration exposure more attractive. Gold should remain well supported in this environment, with real yields under continued pressure and geopolitical uncertainty unabated.

Key risks include: inflation surprises, continued momentum in growth technology stocks, and political or policy missteps particularly around central bank action or fiscal stress. Amid these uncertainties, our emphasis remains on quality, diversification, and capital discipline.

Commentary on Blackwattle's Funds

We will make mistakes and missteps. But rather than hide from our mistakes, as an investment team we strive to learn from them. This is one of our unwavering commitments.

This month, four of our Funds outperformed, and one Fund underperformed their respective benchmarks.

Fund Performance (Net of fees)	1 month	3 months	6 months	1 Year	Since Inception ¹
Blackwattle Small Cap Quality Fund	5.30%	18.94%	29.05%	18.18%	23.36%
Blackwattle Small Cap Long-Short Quality Fund ²	6.50%	20.26%	32.34%	15.18%	20.27%
Blackwattle Mid Cap Quality Fund	1.93%	11.94%	19.35%	15.46%	17.39%
Blackwattle Large Cap Quality Fund	-1.05%	6.35%	17.13%	10.81%	13.53%
Blackwattle Long-Short 130/30 Quality Fund	-0.76%	7.20%	19.89%	12.68%	15.60%

Fund Relative Return vs Benchmark (Net of fees)	Since Inception ¹	Benchmark ³	Value Add	Inception Date
Blackwattle Small Cap Quality Fund	23.36%	18.43%	4.93%	12-Sep-23
Blackwattle Small Cap Long-Short Quality Fund ²	20.27%	17.92%	2.35%	21-Nov-23
Blackwattle Mid Cap Quality Fund	17.39%	13.88%	3.51%	08-Aug-23
Blackwattle Large Cap Quality Fund	13.53%	13.64%	-0.11%	08-Aug-23
Blackwattle Long-Short 130/30 Quality Fund	15.60%	13.64%	1.96%	08-Aug-23

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1: The Blackwattle Mid Cap Quality Fund, Large Cap Quality Fund, and Long-Short 130/30 Quality Fund's inception dates are 8 August 2023. The Blackwattle Small Cap Quality Fund's inception date is 12 September 2023. The Blackwattle Small Cap Long-Short Quality Fund's inception date is 21 November 2023. 2. Small Cap Long-Short Quality Fund Returns are normalised for the removal of unallotted applications, following the transition of Investment Manager of the Fund. There was a six-month transition period beginning 21 November 2023 and ending 21 May 2024, following the transition of Investment Manager of the Fund. During this transition period, the Fund Benchmark was 50% cash rate as determined by the Reserve Bank of Australia and 50% S&P/ASX Small Ordinaries Accumulation Index 3. Benchmark: Long-Short 130/30 Quality Fund and Large Cap Quality Fund is S&P/ASX 200 Accumulation Index, Mid Cap Quality Fund is S&P/ASX300 Accumulation Index-S&P/ASX20 Accumulation Index, Small Cap and Small Cap Long-Short Quality Fund is Small Ordinaries Accumulation Index. All returns are calculated after fees have been deducted and assume distributions have been reinvested. No allowance is made for tax when calculating these figures. Past performance is not a reliable indicator of future performance. Source: Apex.

Blackwattle Large Cap Quality Fund

The fund returned -1.05%, slightly underperforming the benchmark by 0.27% net of fees.

Key Contributors: Newmont (NEM) benefited from the gold rally. ALS (ALQ) rose on mining sector strength, supported by increased testing demand. Life360 (360) advanced following U.S. product launches and strong ad monetisation updates.

Key Detractors: Pinnacle Investment Management (PNI) underperformed amid weaker affiliate performance and negative press. Perpetual (PPT) declined on uncertainty surrounding the sale of its wealth business.

Blackwattle Long-Short 130/30 Quality Fund

The fund returned -0.76%, outperforming the benchmark by 0.02% net of fees.

Key Contributors: Newmont (NEM) was again the standout, benefiting from rising gold prices. Anglo American (AAL LN) rallied on its merger with Teck Resources, creating one of the world's top five copper producers. ALS (ALQ) gained on continued mineral testing demand.

Key Detractors: Pinnacle (PNI) and Perpetual (PPT) underperformed on weak fund manager sentiment. Short positions in consumer and healthcare names contributed positively.

Blackwattle Mid Cap Quality Fund

The fund returned +1.93%, outperforming the benchmark by +1.08% net of fees.

Key Contributor: Newmont (NEM AU) rose +16%, tracking record gold prices near US\$3,800/oz, supported by Fed easing and ongoing central bank buying.

Key Detractor: WiseTech Global (WTC AU) fell -11% after disappointing FY26 guidance, but management reiterated strong FY27 growth potential. The portfolio team views the pullback as a compelling long-term entry point.

Blackwattle Small Cap Quality Fund

The fund returned +5.30%, outperforming the benchmark by +1.86%.

Key Contributors: Ora Banda (OBM) rallied +39.6% on exploration success and operational recovery; Capstone Copper (CSC) gained +20.5% following restored production and higher copper prices; Superloop (SLC) added +18.1% on accelerating broadband orders under NBN Co's "Accelerate Great" initiative.

Key Detractor: Pinnacle Investment Management (PNI) fell -16.4% on weaker affiliate earnings expectations.

Blackwattle Small Cap Long-Short Quality Fund

The fund returned +6.50%, outperforming the benchmark by +3.06%.

Key Contributors: Ora Banda (OBM), Capstone Copper (CSC), and Superloop (SLC) drove gains.

Key Detractor: Pinnacle (PNI) detracted, mirroring weakness seen across the sector.

Gratitude and Commitment

To our clients and partners - Thank you.

It is a privilege to represent your capital and hold your trust. We remain committed to investing alongside you, ensuring our interests are always aligned with your own. We re-iterate the commitments to our investors:

- We will always commit our own capital alongside your own.
- We will never allow personal trading.
- We will always constrain the capacity of our Funds.
- We will learn and improve from our mistakes.
- We will act with transparency.

Kind regards,

Michael Skinner CIO and Managing Director, and the entire Blackwattle Team

How to Invest

To invest please click on the link
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